

2007



FurnitureBrands ANNUAL REPORT 2007

# Our people are



**ELIZABETH**  
ELIZABETH HAYDEN  
DESIGN CONSULTANT



DAVY

DAVY WHITTINGTON  
DIRECTOR, DISTRIBUTION  
& LOGISTICS

DEAR SHAREHOLDERS,  
**A Review of 2007**

In 2007, we took on the challenges of implementing the first phase of our strategic plan.

We were tasked with making hard decisions to strengthen our balance sheet, to close unprofitable stores and underperforming plants, and to significantly reduce our inventories.

Because of these actions, we reported a net loss of \$0.94 per share for fiscal 2007.

Even though a large portion of that loss was attributable to one-time charges to income related to actions that are essential for our long-term growth, the results were still disappointing to us and to the rest of our management team.

Focus  
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Although we must be realistic about our recent operating results, we must also acknowledge that in many ways 2007 was a year of significant progress. The charges mentioned above were part of the costs of implementing our strategic plan, a plan that will in many ways change how we do business. This included the closing of five manufacturing plants during the year and the reorganization of much of our retail store operations. These investments in our company's future drive us closer to our goal of changing this company from one with a manufacturing mindset to a true branded consumer products company focused on the consumer. The difficult decisions made in 2007 will reap rewards in the current year and beyond.

Also in 2007, we made significant changes to our Executive Leadership Team. Our core brands – Broyhill, Thomasville and Lane – and the Designer Group are now under the direction of new leaders with solid industry experience. We have also strengthened our team with new expertise in supply chain management, marketing, and strategic planning from some of America's leading companies. We also laid the foundation for a transition of company leadership. Ralph Scozzafava joined Furniture Brands in June and assumed the role of Chief Executive Officer at the start of 2008. Ralph has outstanding credentials in consumer marketing, brand management, and operations and has been a tireless champion of our strategic plan.

Lastly, in 2007 we kept our commitment to increase our cash balances and strengthen the balance sheet. We reduced our working capital significantly and we finished the year with \$118 million in cash on hand and \$280 million in long-term debt. At year end we had the most cash and the least debt that Furniture Brands has shown at any year-end since it finished its recapitalization in 1992.

proud of our  
heritage

## A Look Forward to 2008

While our focus in 2007 was on generating cash, our focus in 2008 is on improving profitability. We intend to achieve our profitability goals through a number of very specific initiatives, and we laid the groundwork for many of them last year:

We will reduce the level of unnecessary discounts in 2008. Because our inventory reduction efforts in 2007 often entailed an increase in discounts to move inventory, those efforts are largely behind us and will enable us to drive more profitable revenue going forward.

We will achieve immediate benefits from our inventory reduction program. Our lower inventories have enabled us to close three warehouses in 2007, streamline our logistics functions and reduce our demurrage costs.

We will realize the cost savings from the 2007 closure of five manufacturing plants and the associated reductions in workforce. Those closures of inefficient operations along with the elimination of an additional 100 management and non-production positions last year will make for a lower cost structure in 2008.

We will realize savings from the closure of 18 company-owned stores in 2007. These locations had been historically poor performers and were a profit drain that affected our earnings performance.

Of course, we're taking action on a number of other strategic areas that will produce additional cost savings, such as our move to a shared services model with centralized human resources, information technology, supply chain, and finance functions. These programs support the move from a holding company model to an operating company model, which is an essential element of our strategic plan.

# passionate



## **Driving Our Strategic Plan**

Our strategic plan has four core elements. We have already made significant progress on each of them, and we will continue to drive them forward throughout 2008.

*Building our Brand Power.* We have a great family of brands...the best in the industry. Our challenge has been to harness the power of these brands and to get them in front of the right customers and consumers. Our shift to an operating company model will let our consumer marketing teams take a holistic approach to how we serve the consumer. In 2008, you'll see Furniture Brands use a far more rigorous process to test our new products with consumers before we take them to market. This will increase the acceptance rate of our new product introductions and lower our need for future discounting. You will also see us engage the consumer directly through increased advertising as we shift our ad budget to increase our percentage of working dollars. Our ad budget will now be more targeted at the consumer and stronger than ever.

*Winning with Customers.* We will win with customers, namely our retail partners. We completed our first national sales meeting and our teams kicked off our WOW strategy at the Las Vegas market. WOW stands for Win in the Store, Own the Customer, and Work Together. For our sales teams, the cornerstone of the WOW strategy is a Value Bundle that gives them the tools to sell to retailers on multiple levels. By taking the dialogue beyond just price, we can deliver what the retailers really need – value and solutions – while we achieve our financial targets.

moving  
forward

A large teal rectangular background graphic. Overlaid on it is the text "moving forward" in a large, white, sans-serif font. The word "moving" is on top and "forward" is below it, with a thin vertical line extending from the top of the "f" in "forward" down to the bottom of the "d".

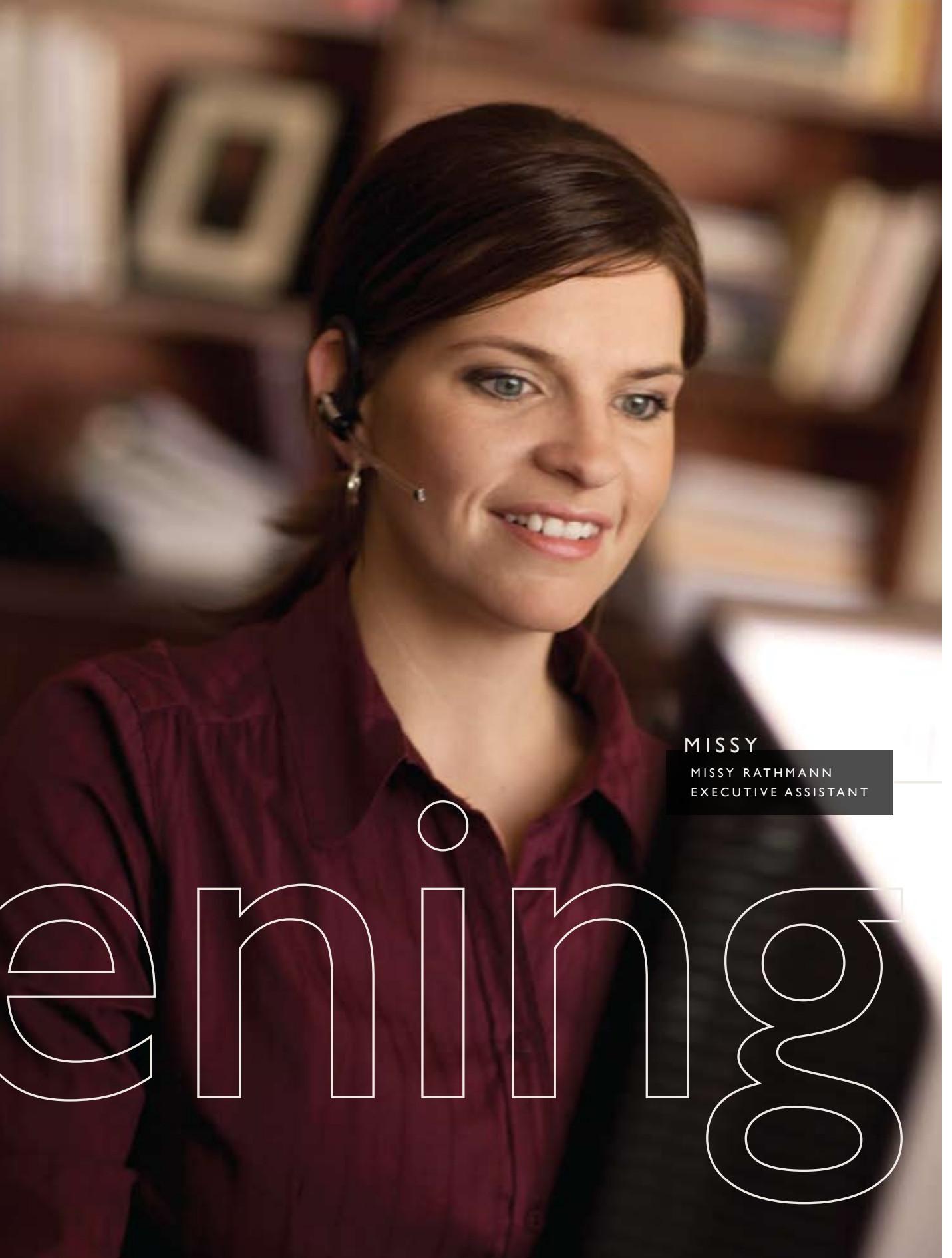


*Delivering Operational Excellence.* We are also getting better at manufacturing and sourcing, and we have made substantial progress on improving our supply chain and logistics capabilities. We are also setting up our FBN Asia office to coordinate our relationships with third-party suppliers. This is not a manufacturing operation, but rather a supplier management function. We will now have all engineering, design and quality assurance functions in-house that had been managed externally. By having our own supply chain management resources on the ground in Asia, we can cut lead times, safeguard our designs, and maintain our high quality standards.

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*Growing and Developing our People.* We are allocating the right financial resources to the strategic plan and we are making sure that we provide our people with the resources, tools, and opportunities they need to effectively implement the strategy. We are transitioning to a shared services model, which will help us work more efficiently and effectively across the organization and give many associates new growth and development opportunities. We are also introducing a new performance and rewards process that focuses on development, succession planning, and pay for performance. We expect that as our business transformation continues, our associates will have more opportunities to explore new roles and responsibilities, including movement across divisions and international assignments. By investing in our people, we are better positioned to deliver strong business results.

listening



**MISSY**  
MISSY RATHMANN  
EXECUTIVE ASSISTANT



**RALPH**  
RALPH SCOZZAFAVA  
VICE-CHAIRMAN AND  
CHIEF EXECUTIVE OFFICER

**MICKEY**  
W.G. (MICKEY) HOLLIMAN  
CHAIRMAN OF THE BOARD

### Meeting and Exceeding Our Shareholders' Expectations

We are in the beginning phases of a large transformation at Furniture Brands, that will make us one of the largest and potentially one of the best positioned companies in the home furnishings industry. In 2007, we made choices that were targeted at strengthening our balance sheet for the road ahead. The fact that our cash is at the highest level since 1992 and our debt is at its lowest level – and continues to improve – shows we've succeeded at our first objective, which is stabilizing the financial condition of the company. Now our focus is on increasing profitability, and we are confident we will be just as successful at that in 2008. The strategic plan we have in place is based on solid business principles, and it will generate substantially greater value for our shareholders. We hope you take away the message that we are doing the right things and making solid progress. We look forward to meeting – and exceeding – your expectations in 2008.

We are excited with the pace of the change taking place in our company. As always, we are grateful to our customers, our shareholders and our associates for their support throughout the year.

Sincerely,

A handwritten signature in black ink, appearing to read "W.G. Holliman".

**W.G. (Mickey) Holliman**  
Chairman of the Board

A handwritten signature in black ink, appearing to read "Ralph P. Scozzafava".

**Ralph P. Scozzafava**  
Vice-Chairman and Chief Executive Officer



MICHAEL  
MICHAEL DELGAUDIO  
SENIOR VICE-PRESIDENT  
CREATIVE DESIGN

Our people are the  
**strategy**

## Board of Directors and Executive Officers

### Board of Directors

Katherine Button Bell<sup>2</sup>  
Vice-President and Chief Marketing  
Officer of Emerson Electric Co.

John T. Foy\*  
President and Chief Operating Officer of the Company

W.G. (Mickey) Holliman  
Chairman of the Board

John R. Jordan, Jr.<sup>1\*\*,3</sup>  
Retired, formerly Vice-Chairman of PriceWaterhouse  
(now PricewaterhouseCoopers)

Lee M. Liberman<sup>1,2</sup>  
Chairman Emeritus of Laclede Gas Company

Richard B. Loynd<sup>3\*\*</sup>  
President of Loynd Capital Management

Bobby L. Martin<sup>1</sup>  
Independent Management Consultant, Retired President  
and Chief Executive Officer of Wal-Mart International  
(the international division of Wal-Mart Stores, Inc.)

Aubrey B. Patterson<sup>1,3</sup>  
Chairman of the Board and Chief Executive Officer  
of BancorpSouth, Inc.

Matthew E. Rubel<sup>2</sup>  
Chief Executive Officer and President  
of Collective Brands, Inc.

Ralph Scozzafava  
Vice-Chairman and Chief Executive Officer of the Company

Albert E. Suter<sup>2\*\*,3</sup>  
Senior Advisor, Retired Vice-Chairman  
and Chief Operating Officer  
of Emerson Electric Co.

Committees of the Board  
1 Audit Committee  
2 HR Committee  
3 Governance and Nominating Committee

### Executive Officers

W.G. (Mickey) Holliman  
Chairman of the Board  
Furniture Brands International, Inc.

Ralph Scozzafava  
Vice-Chairman and Chief Executive Officer  
Furniture Brands International, Inc.

John T. Foy\*  
President and Chief Operating Officer  
Furniture Brands International, Inc.

Jon Botsford  
Senior Vice-President and General Counsel  
Furniture Brands International, Inc.

Lynn Chipperfield\*\*\*  
Senior Vice-President and General Counsel  
Furniture Brands International, Inc.

Beth Sweetman  
Senior Vice-President of Human Resources  
Furniture Brands International, Inc.

Alex Hodges  
Chief Marketing Officer  
Furniture Brands International, Inc.

Rick Isaak  
Controller and Chief Accounting Officer  
Furniture Brands International, Inc.

Mike McBreen  
Vice-President of Supply Chain and Logistics  
Furniture Brands International, Inc.

Dan Stone  
Vice-President of Strategy and Business Development  
Furniture Brands International, Inc.

Dan Bradley  
President  
Designer Brands

Jeff Cook  
President  
Broyhill Furniture Industries, Inc.

Skipper Holliman  
President  
Lane Furniture Industries, Inc.

Ed Teplitz  
President  
Thomasville Furniture Industries, Inc.

\* retired January 2008  
\*\* indicates Committee Chairman  
\*\*\* retired March 2008

## Investor Information

### Corporate Offices

101 South Hanley Road  
St. Louis, Missouri 63105-3493  
(314) 863-1100  
[www.furniturebrands.com](http://www.furniturebrands.com)

### Transfer Agent and Registrar for Common Stock

American Stock Transfer & Trust Company  
59 Maiden Lane  
New York, NY 10038  
Contact us at:  
1-800-937-5449 or [www.amstock.com](http://www.amstock.com)

The Chief Executive Officer and Principal Financial Officer have certified in writing to the Securities and Exchange Commission (SEC) as to the integrity of the Company's financial statements included in the Company's Annual Report on Form 10-K for the fiscal year ended December 31, 2007 filed with the SEC, and the effectiveness of the Company's disclosure controls and procedures and internal control over financial reporting. The certifications are filed as Exhibits 31.1, 31.2, 32.1, and 32.2 to the said Form 10-K. On May 31, 2007, the Chief Executive Officer also certified to the New York Stock Exchange that he is not aware of any violation by the Company of the New York Stock Exchange corporate governance listing standards.

### Exchange Listing

Common shares are listed on the  
New York Stock Exchange (trading symbol: FBN)

### Annual Meeting

The Annual Meeting of Shareholders will  
be at 10:00 a.m. on Thursday, May 1, 2008  
at the Ritz Carlton in St. Louis, MO.

### Independent Registered Public Accounting Firm

KPMG LLP  
10 S. Broadway, Suite 900  
St. Louis, Missouri 63102-1761  
(314) 444-1400

## Financial Highlights

Year Ended December 31,

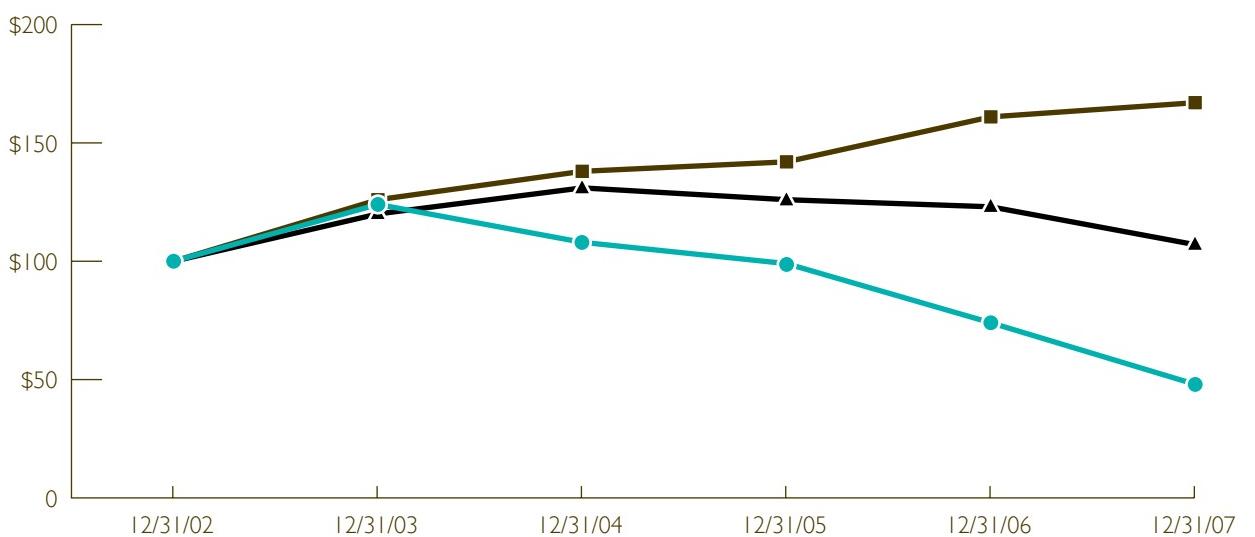
(In thousands, except per share, employee, and statistical data)

	2007	2006	2005	2004	2003
From continuing operations:					
Net sales	\$ 2,082,056	\$ 2,361,680	\$ 2,342,526	\$ 2,412,341	\$ 2,403,240
Net earnings (loss)	(51,217)	49,915	58,023	89,725	93,435
As a percentage of net sales	-2.5%	2.1%	2.5%	3.7%	3.9%
Per Share of Common Stock (diluted):					
Net earning (loss)	\$ (1.06)	\$ 1.02	\$ 1.11	\$ 1.62	\$ 1.66
Dividends per share	\$ 0.64	\$ 0.64	\$ 0.60	\$ 0.525	\$ 0.125
Financial condition at year-end:					
Working capital	\$ 712,455	\$ 752,618	\$ 718,183	\$ 711,115	\$ 703,233
Current ratio	4.8 to 1	5.0 to 1	4.4 to 1	4.6 to 1	4.8 to 1
Total assets	1,463,078	1,558,203	1,582,224	1,587,759	1,578,259
Total long term debt	280,000	300,800	301,600	302,400	303,200
Shareholders' equity	\$ 844,766	\$ 910,715	\$ 903,952	\$ 957,483	\$ 966,902
Average common shares (diluted)	48,446	48,753	52,104	55,220	56,256
Full-time employees	11,900	13,800	15,150	17,800	19,250

Results of operations for all periods presented have been restated to reflect the classification of HBF as a discontinued operation.

## Performance Graph

The following graph shows the cumulative total stockholder returns (assuming reinvestment of dividends) following assumed investment of \$100 in shares of Common Stock that were outstanding on December 31, 2002. The indices shown below are included for comparative purposes only and do not necessarily reflect the Company's opinion that such indices are an appropriate measure of the relative performance of the Common Stock.



	12/31/02	12/31/03	12/31/04	12/31/05	12/31/06	12/31/07
● Furniture Brands International Common Stock	100	124	108	99	74	48
■ S & P 500 Index	100	126	138	142	161	167
▲ Dow Jones Furnishings and Appliance Index	100	120	131	126	123	107

FurnitureBrands

 **Broyhill**

DREXEL  HERITAGE

H E N R E D O N

 **Lane**  
HOME FURNISHINGS

**MAITLAND-SMITH**

*Thomasville*

Pearson

HICKORY CHAIR

Creative Interiors  
A Division of Thomasville Furniture Industries, Inc.

Laneventure